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VISTA ALEGRE: THE DECLINE OF AN HISTORICAL COMPANY

LUÍS CARLOS NUNES PINTO

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Professor José Neves Adelino

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Vista Alegre: The decline of an historical company

This case describes the events that took place in Vista Alegre during the last two decades (1989-2007). This historic Portuguese company is dedicated mainly to the manufacture of 'table art' products, gaining enormous prestige on national territory due to the excellence of its products. However, this prestige was not sufficient to sustain the company, as this case shows.

Information can be found in this case regarding the strategic decisions made by the company based on growth and major investment in new equipment in order to create a truly international group. However, this strategy did not generate the expected outcome and even resulted in the group's steep downfall which would end in the takeover bid launched by Visabeira at the beginning of 2009.

Keywords: capital structure, financial distress

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On 19th January, 2009 the Visabeira Group delivered all documents requested to the CMVM so that the necessary formalities could be completed on a takeover bid regarding a Portuguese public company - Vista Alegre Atlantis.

Bernardo Vasconcellos e Souza, CEO of the Vista Alegre Atlantis (VAA) Group was at VAA's head office when news of the proposal was received. Contrary to the reaction of the majority of the CEOs, who view the company they head as being the target of a takeover bid, the manager received the news with pleasure, even showing a slight smile. He knew that, given the serious financial situation of the group, his team was in no condition to perform the necessary transformations to make VAA a lucrative institution once more. During the previous months, he had sought solutions which could make the group viable but, unfortunately, they were not forthcoming. The possibilities of his administration finding a way for the future of the group being frustrated, Bernardo Vasconcellos e Souza knew that this same future would be at stake in the next few months (maybe weeks). If an investor interested in acquiring the Group did not appear rapidly, the Group with the historical brand name "Vista Alegre" would have to close its doors.

The manager still did not know what strategy Visabeira had in mind for VAA. Meanwhile there was hope that this operation would give the stimulus needed to make the group workable as well as restore the prestige of the time-honoured brand name "Vista Alegre".

History of Vista Alegre

Bernardo Vasconcellos e Souza knew that the main asset of the VAA Group was the brand name of Vista Alegre porcelain. Its origin dates back to 1815 to the hand of José Ferreira Pinto Basto who, inspired by the recent industrial upsurge taking place in Portugal, started by acquiring a small farm on the outskirts of Aveiro with the intention of establishing an industrial project focused on the creation of porcelain. D. João VI (the king of Portugal at that time) granted the licence to operate in 1824. Right from the beginning, the entrepreneur resolved to invest both in the design and the quality of the final product, recognising these as the key to success.

Pinto Basto's risk paid off. The 19th century was a period of extraordinary prosperity for the company, this fact being intimately linked with the venture in the designs put forward by recognised artists of the time (this point still being true today).

At the turn of the century, the company's circumstances worsened considerably due to the unstable political climate. This period of stagnation only started to reverse during the years from 1947 to 1968 with the acquisition of two important competitive companies and the investment in the training of the technical staff. These two changes in the bosom of Vista Alegre made a technical and industrial development possible and provided the means for an ambitious "attack" on the international market. During the 70s and 80s the company was a centre for technological development and gave a great deal of attention to the training of young painters.

However, in spite of various investments during its history, at the end of the 80s the company faced a critical situation which demanded a new definition of the company's strategy.

The change of strategy

The current CEO of Vista Alegre Atlantis was already part of the institution (although he performed other functions) when the new aims for the company were defined, which once and for all changed the course of the company. He remembers exactly the reasons which justified this change.

At the end of the 80s, the growth of Vista Alegre slowed each year. This fact, associated with the reduced dimension of the Portuguese market, led to the investment on the external market. The administration at that time believed that the best way to make an assault on the external markets was to alter the target public of the company, that is to say, this internationalization should also include the European and American middle and upper middle classes instead of focussing as before on their elite. However, in order to follow this plan, it would be necessary to increase the established productive capacity. To this end, investments were made during the 90s, but the main leverage was the merger with the ceramic group Cerexport in 1997 (Exhibit 1).

Merger with Cerexport

Cerexport was a Portuguese ceramic group, smaller than Vista Alegre, with international standing. It was believed that the merger of the two groups would duplicate the volume of business of the new Vista Alegre as well as gaining a better international standing and a greater diversification in its business area.

The merger with this group experienced a number of major setbacks, which the then administration had not foreseen. This caused a significant delay in the integration of the two groups. The procedure was devised in 1990 with the objective of creating a

group of “European proportions” which would allow a relevant access to the new markets in mind. In 1991, it was approved in the general meeting by the majority of shareholders, although a small group opposed the procedure, lodging a lawsuit which was concluded only in 1997. In this same year, the procedure was finalized, although the results were only reflected in the 1998 balance sheet.

At the same time as this merger, as from 1991 Vista Alegre made important investments in their main industrial unit (in Ílhavo) with the aim of providing it with the most advanced technologies of the sector. This investment greatly increased the productive capacity of this unit making it possible to focus a significant part of the production of the two groups (Vista Alegre and Cerexport) in Ílhavo. The then administration also believed that this transfer of production of the two groups to a single, modernised production centre would generate important combined actions giving leverage to the value of the new group resulting from the procedure. This merger would also allow Vista Alegre to diversify its activity within its sector (porcelain) especially with the production of earthenware, a business in which it participated via the company Capôa – a subsidiary of Cerexport.

Reinforcement of the strategy followed

At the turn of the millennium, the group administration considered that the efforts made to reach the European dimension (despite generating positive results) had not brought about the results hoped for. Thus the Vista Alegre Group prepared a new series of important investments with a view to automatizing the Ílhavo unit as well as a new merger with another important group of Portuguese tableware – the Atlantis Group (Exhibit 1).

Merger with Atlantis

The bringing of the Vista Alegre Group and the Atlantis Group together (the group dedicated to the production of crystal tableware) with a view to integration goes back to the 80s. They saw a good partner in each other which could complement not only the supply of goods, but also widen the range of the markets that the group was open to. This merger would be responsible for the creation of the sixth major player of European tableware – an advantage taking into account the objective of internationalization.

The main source of revenue of the now merged groups had always been the sale of tableware sets, especially through a mechanism which was very common in Portugal at that time – the “wedding list”: guests gave gifts from the list to the bride and groom. It was usual for these lists to include Vista Alegre and Atlantis products and it was quite common for Vista Alegre shops to receive over a thousand lists annually. The administration of the two groups believed that their union and the way they complemented each other (Vista Alegre produced porcelain sets and Atlantis connected with crystal produced mainly glassware sets) would lead consumers interested in one of the brands to obtain the complementary products of the other group.

The diffusion of the two brands on different international markets was also an important strategic point in this merger. Vista Alegre was well-known on the Spanish and German markets and Atlantis in its turn had been successfully introduced to the American market. Thus this merger enabled the easy introduction of Vista Alegre sets coupled with the Atlantis brand into the American market, thereby completing the offer of products for “table art” in this sphere and the other way round in the cases of the Spanish and German markets.

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The advantages of a merger between the two groups being identified, the opportunity to follow this through arises when part of the profit sharing of the two groups is in the hands of ordinary shareholders (Cofina and BPI). Thus this operation was announced to the market in September, 2000 and was only concluded in 2001.

Alterations on the market

In the middle of the process of integrating the two industrial groups – a process that, because of the complexity of the two institutions (mainly Vista Alegre which included various companies) would be costly both in terms of capital and time - two facts were noted which radically altered the market conditions until then.

The first was the terrorist attack on the United States on 11th September, 2001. This event shook the world economies causing important changes regarding spending so that the consumer limited the acquisition of unnecessary articles demanding a substantial investment. “Table art” articles such as the tableware produced by Vista Alegre Atlantis suffered a decrease in demand, giving as an example the wedding lists, the new generation of couples no longer interested in having these kinds of articles on their lists. The new families started by having only one set of more functional tableware. Events where “table art” was used (ceremonies, receiving guests etc.) took place away from home. These articles were now seen as a considerable investment with little use in the future.

The event prior to this was also marked by the unexpectedly high costs of energy and the historical appreciation of the Euro. Knowing that this industry (tableware, specifically the “table art”) is controlled by the predominance of two expenses: manual labour (being an industry of intensive work in exclusive articles) and energy (the latter

being more pertinent), we understand how critical this period was for the Group. The appreciation of the Euro in 2001 was, without doubt, another adversity for the new group which was aiming for internationalization.

The second relevant fact that occurred during the merger period was the entry of China into the World Trade Organization (WTO) in 2001, which facilitated the proliferation of her products in Europe and America. This new player produced functional tableware at extremely aggressive prices due to a completely different method regarding the costs of manual labour.

The decisions during the merger

During the year of its creation, the Vista Alegre Atlantis Group faced a series of challenges critical for the future of the group. An important alteration in the conjuncture of the “table art” market and a merger procedure which was meant to be speedy and efficient demanded the choice of a strong leader, capable of creating a new institution which would prosper in the face of the new market conditions from the union of Vista Alegre with Atlantis.

Mário Pais de Sousa was the one chosen to head the modernization and internationalization process of the Vista Alegre Atlantis Group. Bernardo Vasconcellos e Souza remembers why this manager was indicated to head this project. Mário Pais de Sousa was, until then, the leader of a company of a company whose capital was well established, more specifically Vulcano (a company dedicated to the production of water heaters). Here, Mário Pais de Sousa had directed the modernization of the company, obtaining very satisfactory results and was thus indicated as a worthy leader in the modernization of VAA.

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Mário Pais de Sousa's immediate objective was the modernization of the group's main units with new equipment which, owing to their special characteristics, would only be useful for this specific industry. Nevertheless, he hoped to transfer the production of the various factories in the group to these modernized units thus reducing the fixed costs borne by the company. Thus the following plan was defined for the three-year period of 2001 to 2003:

- Reduction in the number of companies in Portugal from 14 to 3
- Without loss of production capacity, reduction in the number of factories from 12 to 6
- Reduction in the number of logistics centres from 14 to 6
- Reduction in the number of employees from 4,300 to 3,080

This operational restructure was expected to cost 26 million Euros, the removal of factories and warehouses 12.5 million, and 13.5 million for compensation due to the laying-off of staff.

Above all, it was hoped that this restructuring would give rise to a reduction in costs of 26.7 million Euros in 2004 (compared to 2000 – the last year before restructuring) of which:

- 17.3 million Euros due to the reduction of employees
- 3.9 million Euros from the reduction of consumption
- 5.5 million Euros originating from the reduction of other costs

The verification of failure

In 2003, the failure of the strategy became obvious with a loss of almost 30 million Euros (Exhibit 3). The company had made an enormous financial effort to increase productive capacity and efficiency, but unfortunately the hoped-for results did not materialize thus worsening the company's situation. Faced with an extremely serious treasury deficit, it was urgent to find a financial solution which would gain some time and financial sustainability so that the whole strategy followed by VAA could be rethought.

The following years were extremely difficult for VAA's administration. In 2004 and 2005, the administration tried to eliminate costs as much as possible, investing only in that considered indispensable. However, the most unpleasant task was selecting personnel of the group to be made redundant since the group's results were inferior to its obligations. It was necessary to find an extraordinary monetary flow, thus, Cerisol, 95% of Crisal and VA Brazil were sold during this period. It was clear to the administrators that these decisions resolved none of the group's problems, serving only to lessen the size of the annual negative results (Exhibit 3), taking advantage of the group's various activities to prolong its existence until a real solution could be found.

Financial restructuring 2006

VAA's CEO was seriously worried with the group's present situation. The investments made previously had not produced the desired results, but had rather aggravated the financial health of the company. VAA urgently needed to obtain funds to carry out an economic restructuring to make the group workable. In this context, Bernardo Vasconcellos e Souza held a meeting with VAA's main creditors, BCP, BPI

and CGD banks, with the expectation of reaching an agreement to lighten the burden of the debt and at the same time bestow on the group the financial capacity to carry out the economic restructuring already mentioned.

The meeting proved to be a life-giving breath of air for VAA. Through the concession of new guarantees on the group's assets and the conversion of 50 million Euros credit from the banks mentioned before in equity (Exhibit 5), the group managed to restructure all its bank liabilities, the main benefits gained being:

- The obligation to withdraw the executive shares interposed by the aforementioned banks to VAA;
- A staggering of the debt over 10 years;
- Reduction of the applicable interest rate.

Knowing that this agreement would not resolve the group's situation structurally and permanently, the CEO was happy with the result as it would give more time for VAA to reverse its position at that period.

European peers: What is the situation?

Bernardo Vasconcellos e Souza knew that the alterations taking place during the present decade, both at the level of consumer tastes and the introduction of strong competition from the East into Europe, placed Vista Alegre Atlantis and its European peers in a very critical situation. So as to face important future challenges, two formulae were used by the European companies producing high quality porcelain (and crystal).

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One was a wager on the growth of productive capacity and the acquisition of brands in the sector (Vista Alegre and Waterford Wedgwood), having the intention of taking advantage of the world-famous trademarks and reducing the unit costs of production. And a second strategy, completely the opposite of the other, aimed at focussing on market niches, especially the hotel business (BHS Tabletop, Churchill China).

Waterford Wedgwood

This Irish company of tableware in porcelain and crystal has a similar past to that of Vista Alegre. Waterford Wedgwood (WW) determined the best strategy to face the market changes was growth by way of acquiring companies in the same sector, having an excellent reputation with consumers, but in complicated economic situations. The company believed that these acquisitions would help with important investments in new technologies, bestowing WW with a dimension and productive structure capable of producing an output at competitive prices and with the Premium quality of always. The importance of upsizing and the acquisition of reputable brands were closely linked with the investments in new production technologies since the advantages (reduction of output costs) would only be realized if the new equipment worked at full capacity, which would have been impossible to achieve working only with the primitive WW. It was within this context that the German Rosenthal (1997) and the British Royal Doulton (2004) were acquired.

Obviously this strategy meant that there could be no slowing down of consumer demand in all sectors of Premium tableware, especially that of families (always the most significant customer for these types of product). However, this premise was not

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realized, as household consumption became more and more focussed on much cheaper and inferior quality tableware, basically from Asia. The strategy defined by WW therefore resulted in an enormous fiasco. On the one hand, the heavy investments undertaken were insufficient to equal the competitive prices of the Asian industry, and on the other hand the acquisitions worsened the already fragile financial situation of WW even more.

The company's results were deteriorating as well as its financial sustainability. In August 2008, in a desperate effort not to go under, the management team declared that new shares would be issued with a value of 120 million Euros. This increase in capital was unsuccessful, the company being unable to find investors interested in this operation. At the same time, the financial health of the company made it impossible to obtain any funds from banking institutions.

Without solutions to make the company viable, the predictable road to bankruptcy was rapid. After WW's shares reached 0.001 euros in October, 2008, and after unsuccessfully finding a possible buyer for the company, it was declared insolvent in the first days of 2009. In March the same year, the American KPS Capital Partners agreed to acquire part of WW (the agreement managed through Deloitte), immediately announcing the company would be the target of a profound restructuring, completely altering the previous strategy and dimension of the company.

BHS Tabletop

Still in the 90s, the transfer of the household tableware division to Rosenthal (subsidiary of WW) by the German BHS Tabletop showed how the strategy of this company was the opposite of that of WW and VAA. Preparing for the launch of Asiatic

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products on the European market, with costs that would not be possible to compete with, and realizing that household preferences were more and more centred on cheap utility tableware which did not correspond with its range of products, BHS Tabletop opted to prematurely abandon a branch of business identified as destroyer of value in the short and medium term (household tableware) and focussing on the sale of articles aimed at the Horeca channel (Hotel/restaurant/Caterer).

This strategy diminished the dimension of the company as well as its volume. However, this focus and specialisation enabled BHS Tabletop to have an excellent performance with Horeca - a niche in the market where the quality and excellence of Premium tableware was still the vital point in the decision to buy tableware items. Thus, this German company has managed to present positive results in these last few years.

Churchill China

The British Churchill China opted for a strategy very similar to that of BHS Tabletop, but with a less radical approach, since it opted to reduce the capacity of its division destined for household tableware rather than get rid of it. Just like its German peer, Churchill China focused on the Horeca channel where, in 2009, it is the leader of the United Kingdom market and is also present in Europe and the United States. The option to specialize in this division was to take advantage of the fact that Horeca continues to acquire Premium tableware due to the preference for quality, the price being a variable secondary decision. Nowadays, this English company shows solid results - an outstanding fact in a sector facing such strong competition from the East.

What's VAA's new direction?

It is in an adverse context that VAA's CEO has received Visabeira's proposal. The financial restructuring undertaken in 2006 prevented the historic Portuguese brand from immediate failure, although it did not generate a financial flow, which could make the redefinition of a new strategy for the group viable. Until then, the company had run a difficult course in which the objective had been to survive as long as possible until another solution for the group appeared. This period was characterized by the loss of assets and reduced investments.

It was with a mixture of satisfaction and discretion, characteristic of someone who knows the sector well, that Bernardo Vasconcellos e Souza received the news of the interest shown by Visabeira. He was worried that Visabeira did not have the capacity to absorb an institution avid for cash-flows like VAA, with more than a thousand employees and with an urgent need for capital both to resolve its immediate financial problems and to find a new strategy. Finally, profusion of functional Chinese tableware entering the European market at very competitive prices representing 70% of tableware consumed in Europe at the same time as the Visabeira proposal, caused anxiety that any strategy defined by the Viseu group would be insufficient faced with the pressure from such a competitor.

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Exhibit 1 Vista Alegre - Consolidated Balance 1989-2007 (basic form)
(€ in 000)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 ¹	1999	2000	2001 ²	2002	2003	2004	2005	2006	2007
Intangible Fixed Assets	11	7	1,108	12,828	12,866	14,129	13,640	13,702	14,735	44,697	44,310	46,190	5,737	5,545	7,437	7,286	9,511	9,325	7,534
Tangible Fixed Assets	1,633	2,326	13,471	23,262	24,171	24,339	22,795	22,100	23,386	43,759	46,550	44,821	116,025	109,447	111,688	78,351	60,279	56,401	68,909
Financial Assets	1,275	1,558	17,249	145	134	154	171	169	168	5,573	709	6,363	14,259	13,315	8,793	31,042	494	449	266
Inventory	4,339	5,027	5,812	12,897	13,541	13,152	14,287	15,151	11,793	24,099	28,484	31,549	41,570	49,717	47,058	30,897	48,056	42,735	22,496
Receivables	5,306	3,267	7,445	6,602	7,597	8,530	8,639	9,475	13,783	20,903	22,950	22,087	39,524	39,386	39,291	20,756	23,653	16,033	14,374
Cash	127	145	46	448	1,897	1,444	256	349	581	5,889	2,251	721	1,920	1,833	438	1,338	325	426	239
Accruals and Deferrals	1,375	1,868	427	91	192	265	235	311	550	1,614	2,716	2,280	16,267	18,734	28,329	28,655	20,874	12,354	5,222
Total Assets	14,065	14,197	45,558	56,273	60,397	62,012	60,023	61,256	64,995	146,534	147,970	154,011	235,301	237,978	243,034	198,324	163,192	137,723	119,040
Total Shareholders' Equity	5,792	6,385	31,214	30,906	31,964	32,993	33,473	36,057	27,351	57,822	49,180	49,171	54,945	47,135	24,010	6,826	-15,058	4,975	-10,501
Long Term Liabilities	2,453	1,785	3,439	8,632	11,108	10,259	7,679	8,262	7,952	29,075	31,115	19,400	47,812	44,605	35,008	38,498	23,598	66,883	88,226
Short Term Liabilities	5,820	4,858	9,150	11,861	12,436	14,073	14,506	12,999	20,257	53,083	60,952	79,147	111,451	127,174	164,314	138,457	132,061	45,718	29,923
Accruals and Defferals	0	1,169	1,754	4,874	4,890	4,688	4,365	3,938	9,436	6,374	6,723	6,293	21,094	19,064	19,702	14,543	22,591	20,147	11,390
Total Liabilities	8,273	7,812	14,343	25,367	28,434	29,019	26,550	25,199	37,645	88,532	98,790	104,839	180,357	190,843	219,023	191,498	178,250	132,748	129,539

Source: Vista Alegre Annual Reports

¹ Merger with Cerexport

² Merger with Atlantis

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Exhibit 2 Vista Alegre - Income Statement 1989-2007 (basic form)
(€ in 000 000)

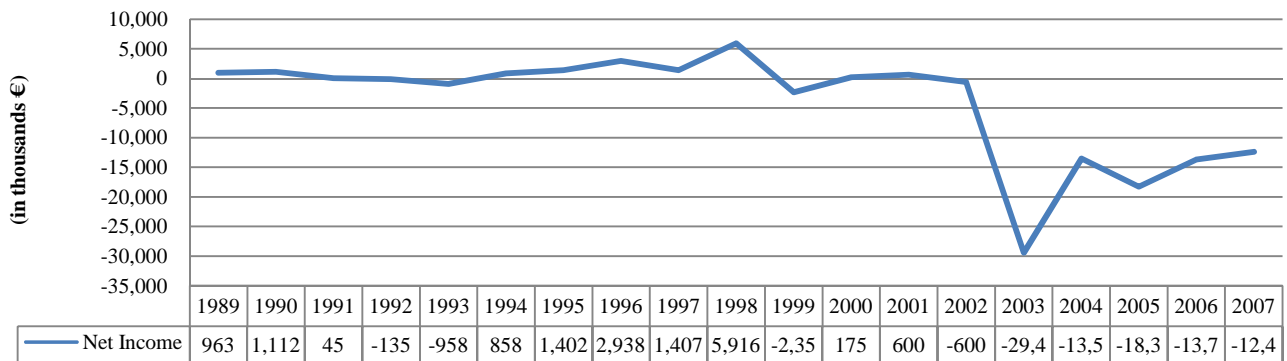
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 ³	2004	2005	2006	2007
Sales	13.96	15.08	31.12	32.85	33.99	39.90	42.95	45.63	49.78	82.83	85.21	88.74	141.3	146.9	136.9	92.9	79	75.5	68.1
Gross Margin	7.63	8.74	17.74	20.17	20.40	22.66	24.57	27.48	17.85	30.29	32.26	35.43	16.1	20.7	125.6	64.7	56.8	54.9	48.5
<i>Depreciation</i>	0.83	0.84	3.42	3.99	3.86	3.90	4.26	4.11	4.61	7.31	6.53	7.24	16.7	20.1	20.4	14	10.2	9.1	7.7
Operating Results	2.01	2.24	2.86	3.96	2.56	4.28	5.12	6.64	2.63	7.39	12.28	5.36	-0.6	0.6	-16.6	-15.1	-13.2	-11.9	-7.1
EBT	1.14	1.36	0.27	0.11	-0.68	1.35	2.60	5.06	0.99	4.69	-1.76	0.75	-7.6	-0.9	-38.5	-20.4	-20.9	-16.5	-11.6
Net Income	0.96	1.11	0.04	-0.13	-0.96	0.86	1.40	2.94	1.41	5.92	-2.35	0.17	0.6	-0.6	-29.4	-13.5	-18.3	-13.7	-12.4

Source: Vista Alegre Annual Reports

³ Economic Restructuring

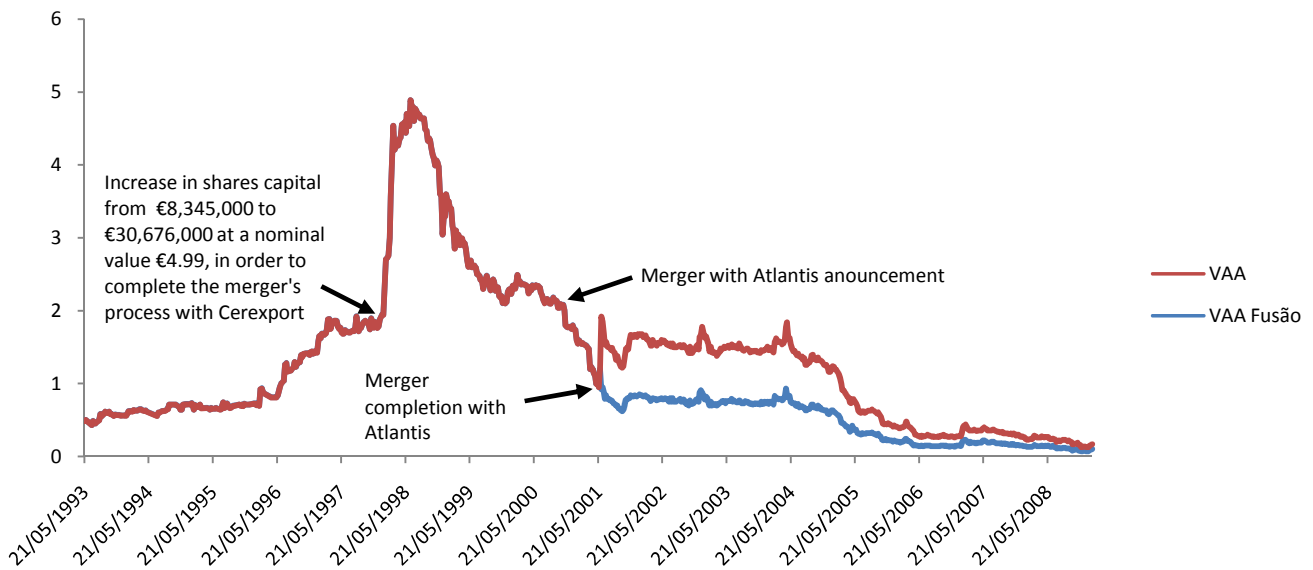
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Exhibit 3 Vista Alegre - Net Income 1989-2007



Source: Vista Alegre Annual Reports

Exhibit 4 Vista Alegre – Stock Price Evolution (in €)



Source: Bloomberg

Exhibit 5 Vista Alegre - Financial Restructuring 2006

On 3/2/2006, as divulged on the CMVM information system, the Company and its affiliates, with the Banks, creditors of the Vista Alegre Atlantis, signed a series of contracts with a view to the financial restructuring of the Group, complying with the following general principals:

a) the debt to be restructured includes all of Group VAA's bank liabilities and others;

b) the Bank creditors are obliged to forego the executive actions proposed against associates of the VAA Group and organize the consequent cancellation of the seizures registered and decreed within the context;

c) staggering of the debt over 10 years;

d) 30-month period of grace for the reimbursement of capital;

e) reduction in the applicable interest rate;

f) reinforcement of Bank guarantees through the establishment of a pledge regarding brand names, industrial equipment and leasing of commercial establishments and mortgages on property;

g) approval of the following deliberations by the General Meeting of VAA-Vista Alegre Atlantis, SGPS, SA:

g.1) reduction of the Company's share capital and the use of reserves to cover losses carried forward from the date of the last approved annual balance sheet;

g.2) conversion of credits to the global amount of fifty million Euros in own capital through the issue of new ordinary shares and the establishment of fringe benefits subject to the regime of supplementary benefits underwritten by Banco Comercial Português, SA, Banco BPI, SA and Caixa Geral de Depósitos, SA;

Exhibit 5 (continued) Vista Alegre - Financial Restructuring 2006

h) the effectiveness of a substantial part of the contracts remained subject to the verification of certain conditions, mainly the approval by the shareholders' General Meeting of the acts referred to in the previous paragraph.

The intercalary shareholders' General Meeting referred to in point g) above, took place on 10/3/2006 and made the following decisions which, the public notary being present, were presented for registration at the Lisbon Company Registration Office on the same day (10/3/2006).

a) loss coverage to the amount of 24,095,092.00 Euros via the direct use of reserves to the amount of 24,095,092.00 Euros (premiums from the issue of shares 19,258,254.00 Euros; revaluation reserve of 845,293.00 Euros; legal reserves of 3,112,000.00 Euros and other reserves of 879,545.00 Euros). These reserves were duly identified on the Balance sheet, reported on 31st. December, 2004, and approved by the shareholders at the General Meeting which took place on 30th June, 2005;

b) reduction of the capital shares of the Company from 53,954,745.00 Euros to 17,189,651.00 Euros, this reduction to the amount of 36,765,094.00 Euros destined exclusively to the loss coverage, to be effected through the extinction of 36,765,094.00 shares, each with a nominal value of one euro;

c) alteration of Article Five of the Company's Articles of Incorporation, the new wording being: "The company's capital, fully subscribed and paid, is 17,189,651 Euros, represented by 17,189,651 shares with a nominal value of one euro each";

Exhibit 5 (continued) Vista Alegre - Financial Restructuring 2006

d) alteration of the nominal value of each share of the company's capital to the nominal unit value of 20 Euro cents each and subsequent change to the nominal value of the shares, the capital being divided into 85,948,255 shares with a nominal unit value of 20 Euro cents each;

e) for each share held by the Shareholders before the General Meeting's deliberations, now hold 1.592969349;

f) alteration of Article Five of the Company's Articles of Incorporation, the new wording being: "The company's capital, fully subscribed and paid, is 17,189,651 Euros, represented by 85,948,255 shares with a nominal value of 20 Euro cents each".

As a result of the Financial Restructuring Contract and the intercalary General Meeting mentioned before, the Annual General Meeting which took place on 31/5/2006, made the following decisions, among others;

a) Approval of an increase in capital from €17,189,651 to €29,007,998, fully subscribed by the banks Caixa Geral de Depósitos SA, Banco BPI SA and Banco Comercial Português SA, the increase of €11,818,347 being via the conversion of credits into capital.

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Exhibit 6 Vista Alegre - Consolidated Balance Sheet (2006 and 2007)
(€ in 000)

	2007	2006
Assets		
Non Current Assets:		
Tangible fixed assets	50.836	56.401
Fixed Assets investments	18.073	20.206
Intangible fixed assets	7.534	9.325
Financial assets	266	449
Deferred tax assets	5.222	7.088
Total Non Current Assets	81.931	93.469
Current Assets:		
Inventory	22.496	24.319
Receivables	13.330	14.281
Advances to suppliers	786	1.229
State and other public entities	258	524
Cash	239	426
Total Current Assets	37.108	40.779
Total Assets	119.039	134.248
Liabilities and Shareholders' Equity		
Shareholders' Equity:		
Share capital	29.008	29.008
Supplementary capital	38.182	38.182
Treasury stocks	-2	-2
Reserves and retained earnings	-65.422	-51.391
Net income of the year	-12.367	-14.878
Minority interest	101	107
Total Shareholders' Equity	-10.501	1.026
Non Current Liabilities:		
Long-term debt	80.025	57.972
Deferred tax	8.201	9.385
Total Non Current Liabilities	88.226	67.357
Current Liabilities:		
Amounts owed to banks	14.153	32.492
Suppliers	12.797	13.226
Other creditors	11.017	16.102
State and other public entities	2.973	3.517
Deferred income	373	528
Total Current Liabilities	41.313	65.865
Total Liabilities	129.540	133.222
Total Liabilities and Shareholder's Equity	119.039	134.248

Source: Vista Alegre Annual Reports

Vista Alegre: The decline of an historical company

Exhibit 7 Vista Alegre - Income Statement (2006 and 2007)
(€ in 000)

	2007	2006
Sales and services rendered	68.324	75.961
Cost of goods sold and materials consumed	-19.616	-20.580
Variation in production	-230	-503
Gross Margin	48.479	54.878
Supplies and Services	-15.794	-18.940
Staff costs	-30.992	-33.410
Depreciation	-7.671	-9.070
Adjustments	-3.196	-3.051
Other operating costs and losses	-4.103	-6.516
Operating income and gains	6.200	4.339
Operating Profit	-7.077	-11.469
Financial profit	-4.538	-4.538
Pre-tax Profit	-11.615	-16.052
Corporation taxes	-752	1.174
Profit after taxes	-12.367	-14.878
Minority interests		
Net Income	-12.367	-14.878
Earnings per share (€)	-0,085	-0,103

Source: Vista Alegre Annual Reports

Exhibit 8 Visabeira Group

With head office in Viseu, this is a group which began operating in the field of telecommunication infrastructures in 1980. Recognized as a high-powered group, it rapidly widened operations to different areas, today comprised of five dozen companies structured in five sub-holdings: Visabeira Telecomunicações e Construção, Visabeira Indústria, Visabeira Imobiliária, Visabeira Turismo and Visabeira Serviços.

Diversification for this group is not limited to the productive sectors but also to the diversity of the cross-border markets to conquer. Its products are available in forty countries, especially Mozambique, Angola, Spain, France, the United Arab Emirates, Morocco and Algeria.

Based on an initially stable financial situation, there was a 14% growth in the 2006/2007 dealings, reaching 342.9 million Euros in 2007 (the historical telecommunications and construction sectors being mainly responsible for this appreciation, corresponding to 82%). The group decided to go ahead with a Public Bid of Vista Alegre Atlantis Group through its subsidiary Cerutil. This strategy was aimed at giving more weight to the group's industrial sector so as to reach a better balance between the different sectors. If the proposal achieves success, it is calculated that the Visabeira Industry could reach a weight of 25% in relation to the global position of the group.

Exhibit 8 (continued) Visabeira Group

Visabeira Group's venture in the ceramic sector became patent with the acquisition of the Faianças Artísticas Bordalo Pinheiro factory on 31st March, 2009. Bordalo Pinheiro is also a historic national company, very well-known in Portuguese territory, going through a very difficult situation. It was expected to close its doors before the acquisition was realized. The announcement of the operation was made with the presence of important government members (among them Prime Minister José Sócrates and the Minister for the Economy Manuel Pinho) who congratulated Visabeira's managers for having gone ahead with this operation.

The connection of the government with this group established in Viseu, is not limited to the time of the announcement. Although indirect, the state has important capital invested in Visabeira, as the Caixa Geral de Depósitos (a state bank) and Aicep (a public company with capital risk) holds 19.5% and 5.94% respectively in Visabeira. It is also foreseen that Aicep will participate with 5 million Euros in VAA's capital if the takeover is successful.

With the acquisition of VAA, Visabeira will count on two traditional and prestigious assets, one of them - Vista Alegre Atlantis - having with an interesting international exposure. The excellent reputation of the group can thus be increased.

TEACHING NOTE

“VISTA ALEGRE: THE DECLINE OF AN HISTORICAL COMPANY”

Synopsis

This case describes the events that took place in Vista Alegre during the last two decades (1989-2007). This historic Portuguese company is dedicated mainly to the manufacture of ‘table art’ products, gaining enormous prestige on national territory due to the excellence of its products. However, as this case shows, this prestige was not sufficient to sustain the company.

Information can be found in this case regarding the strategic decisions made by the company based on growth and major investment in new equipment in order to create a truly international group. Nevertheless, the strategy did not generate the expected outcome and even resulted in the group's steep decline which would end in the takeover bid launched by Visabeira at the beginning of 2009.

Teaching Objectives

This case can be used in an introductory subject on Financial Statements Analysis or on Mergers, Acquisitions and Financial Restructurings. With this case, students can interpret the evolution of a company’s ratios, identifying when and how such evolution is worrying, or not, for the company’s sustainability. At the same time, students will be able to see how a wrong assessment of the advantages of a merger can lead to destruction in value. Lastly, the case also shows the role the government may play in redeeming companies that are considered of importance on a national level.

Proposed Questions

1. Vista Alegre Atlantis faced a delicate situation at the end of 2007. Please analyse the group's evolution during the period from 1989 to 2007 with regard to its solvability and operational evolution.
2. In 2001, at the time of the merger with Atlantis, was the group's speculation to expand its manufacturing capacity the best option? Was this strategy in line with the group's European peers?
3. As well as the growth strategy, another objective of the mergers with Cerexport and Atlantis was a greater diversification in terms of business areas so as to reduce the company's exposure to risk. Do you agree that this strategy benefits VAA shareholders?
4. Was Mário Pais de Sousa a good option? What is your opinion based on?
5. Did the financial restructuring in 2006 generate the desired results? How did VAA's financial health change following this operation?
6. Following the financial restructuring of the group, are the new influential shareholders ideal to operate the necessary economic restructure?
7. In your opinion, what was the key point that led to VAA's present situation? What should have been done?
8. What was the government's role in the takeover bid launched by Visabeira? Would it be plausible to believe that this proposal would be put forward without government support?

Vista Alegre Atlantis faced a delicate situation at the end of 2007. Please analyse the group’s evolution during the period from 1989 to 2007 with regard to its solvability and operational evolution.

The analysis of any company's ratios and financial information is based on the comparison of such values with their historical performance or with their peers' performance. This method is widely used in assessing companies and identifying their strong points, as well as their critical points. However, if the data are not interpreted carefully, one may reach wrong conclusions on the evolution of the group's performance. For example, Vista Alegre carried out two mergers during the period analysed (Cerexport in 1998, and Atlantis in 2001), and so it is foreseeable that there is an increase in its tangible fixed assets during these periods which is basically the result of the consolidation of the balance sheets and not because of investments in this type of assets during those periods.

With regard to this matter, we shall compare VAA's current ratios with its own ratios in past years, and by looking at the differences, we shall try to understand how the group evolved in the last two decades and what the changes and decisions were that led to the group's present situation.

What is Vista Alegre Atlantis's present situation?

A simple analysis of VAA's last balance sheet (2007) is enough for us to understand how serious the group's situation is. Its Owner's Equity is negative and consequently, the level of debt is clearly exaggerated, thus the group's liabilities are higher than its Assets, which obviously means the company is practically breaking up. As from 2002, VAA has continuously shown negative net income which has diluted the group's equity to the point that they are negative.

Teaching Note – “Vista Alegre: The decline of an historical company”

It is clear that VAA’s situation is very serious and gives a picture of imminent bankruptcy and it is important to understand what originated this situation; was it an operational or a financial problem? And what mistakes did the VAA administrators make when deciding on the best strategy for the group?

Operating Performance

The Gross Profit Margin (GPM) and the Operating Profit Margin (OPM) are two ratios that enable us to understand how the operational performance of a company varied. The GPM provides us with the impact of direct costs with the production of the goods sold; and the OPM gives us the impact other operational costs (where depreciations and salaries are evident) have on that same margin. Like most ratios, the GPM and the OPM vary enormously depending on each industry’s characteristics, and so there are no standard values that allow us to immediately say whether the values given are favourable to the group or not. The historical characteristics of the Vista Alegre products – high quality and some are even exclusive – meant the group was able to obtain a relatively high GPM, but at the same time such quality/exclusivity demanded a strong work force which greatly penalized the Operating Profit Margin in relation to the Gross Profit Margin because of the weight of the salaries. VAA’s administration saw this gap as being too detrimental to the group’s results. Investment in new production technologies was seen as a priority, as was the group’s growth by merging with Cerexport and Atlantis. Because of its productive capacity, this growth would be integrated in the group’s internationalization strategy.

$$\text{Gross Profit Margin} = \frac{\text{Gross Margin}}{\text{Sales}} \quad \text{Operating Profit Margin} = \frac{\text{Operating Results}}{\text{Sales}}$$

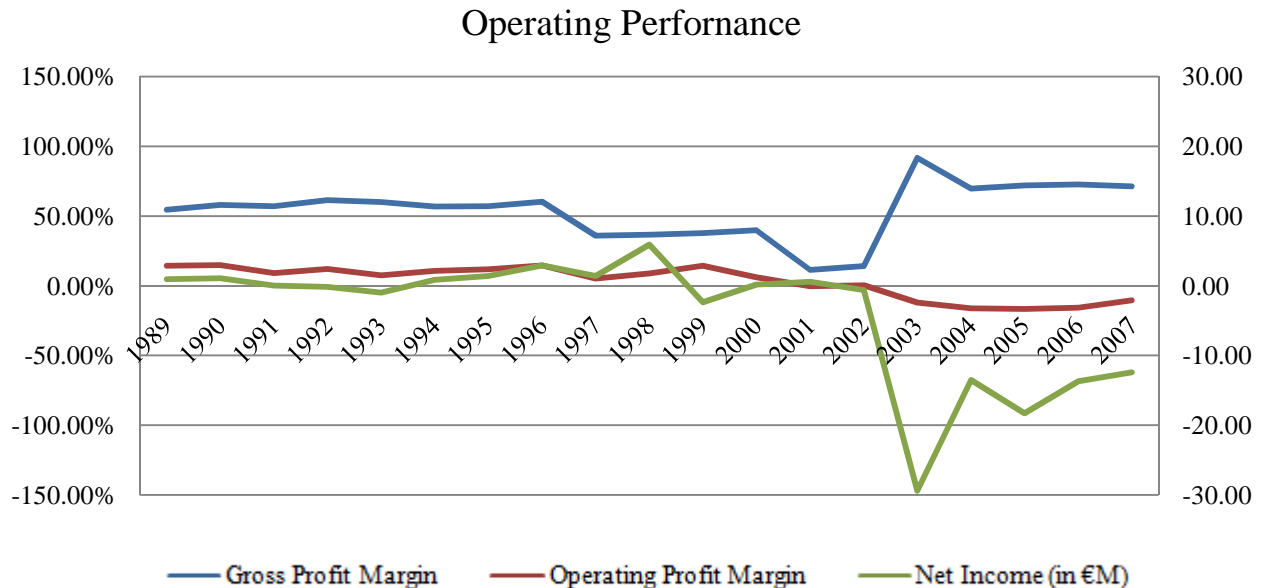


Chart 1

Chart 1 shows how damaging this strategy was to VAA. Despite the GPM's visible growth in 2003, stabilizing at around 70% in the following years, we can see that the OPM became negative in that same period and did not change over the following years. We can also see how the group's results were penalized during this period, having even reached a loss of 30 million Euros in 2003.

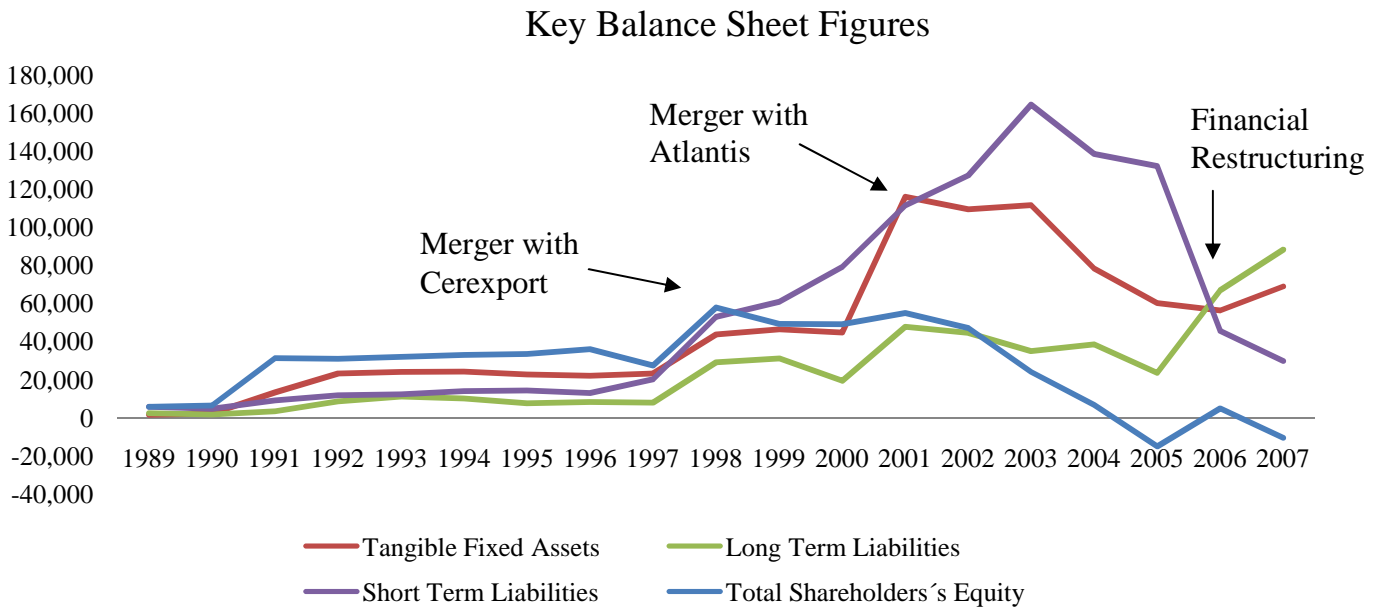
Upon making a deeper analysis, we can see that following a relatively stable period for the GPM with values of approximately 60%, the group's GPM decreased considerably which in itself is not a negative indicator as we know that the company had speculated on growth and therefore the exclusivity of its products had been reduced considerably and consumers were not willing to pay such a high price for these products as they had done before because they had lost their status. However, in order for this loss of margin not to be a bad result, sales would have to increase significantly changing

a group that previously operated with high margins into a group whose operations are based on a high volume of sales. But this was not the case. The group sales only increased considerably in 1998 and 2001 – years that cannot be directly compared to other years because this growth is the result of the mergers with Cerexport and Atlantis, and not because of an endogenous growth in sales.

The GPM's extraordinary growth in 2003 was the result of the group's economic restructuring, having closed half of its factories and concentrating its production on the remaining units. In counterpoint to this rise, VAA's sales have continued to fall since 2003 and the operational results have not been positive since, considering the weight of compensations paid to workers after the various factories closed, but especially because the group found it impossible to work at maximum capacity, thereby decreasing the fixed costs (namely salaries).

The strategy defined by VAA failed because of a bad assessment of its products' comparative advantages based on high quality. The growth became too much to continue to produce unique items, and in the same way could not have competitive production costs (especially after China adhered to WTO) in the production of tableware. Thus, in this decade, Vista Alegre Atlantis became a group of high productive capacity but, unable to deal with this, it became one of its main problems.

Financial Performance



VAA's financial performance had three key events – the two mergers and the financial restructuring in 2006. The most relevant situation chart 2 is probably the fact that the group's Equity reached negative figures in 2005 and 2007, which in itself is a situation of technical bankruptcy. Adding to this serious structural imbalance is the major increase in the group's liabilities, especially the short-term liabilities which suffered an exponential growth between 1997 and 2003. The fact that the short-term liabilities were approximately 4 times higher than the long-term liabilities, foresees even more a scenario of imminent collapse for VAA, as most of its responsibilities would have to be dealt with immediately. Facing a serious structural imbalance in 2005, with liabilities of 178 million Euros and negative owner's equity of 15 million Euros, the administration decided to carry out a financial restructuring in 2006 based on reconverting part of the short-term liabilities into equity and into long-term liabilities.

Teaching Note – “Vista Alegre: The decline of an historical company”

The main impact of this restructuring was the inversion of the structure of the group's liabilities, which made the long-term liabilities more predominant. On the other hand, the positive effect on equity was brief and only lasted during 2006. A final note: to alienate the tangible fixed assets between 2004 and 2005 so as to reduce the short-term liabilities thus honouring their financial commitments showed once more that the group's situation was extremely serious and that it was necessary to obtain this sort of extraordinary revenue so as to comply with its obligations.

A more detailed analysis shows that when financial leverage is correctly managed it is a way of increasing shareholders' profitability by deducting the tax from the cost of the debt. However, we must take into account that, contrary to financing via equity, the main debt must be amortized including the interest rate defined in the contract. Should these obligations not be complied with, the company incurs financial problems. Therefore, the greater a company's leverage, the greater its likelihood of facing financial problems in the future and will have more interest to pay by downgrading its credit. So, to make it easier to study the evolution of VAA's financial leverage, I have calculated the Debt to Assets ratio.

$$\text{Debt to Assets} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

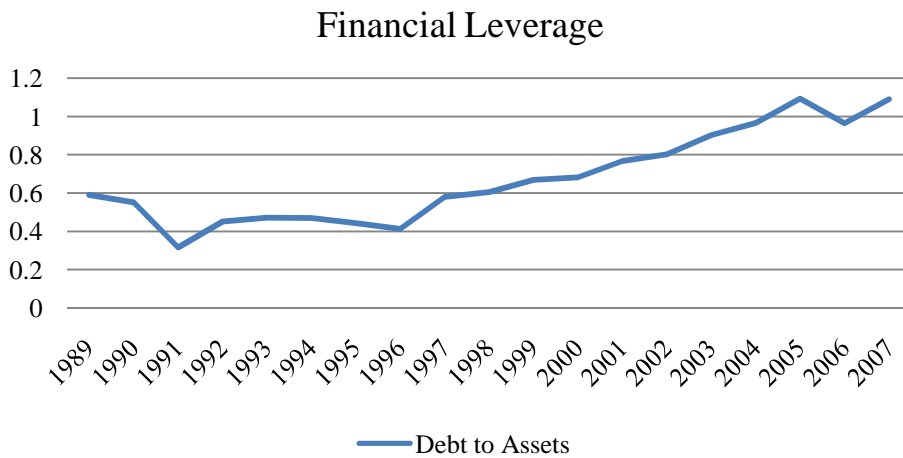


Chart 3

VAA increased its leverage in such a way that, in 10 years, it changed from being a company financed by equal liabilities and equity to a company with a negative equity (which, as we have seen, is considered bankruptcy). Considering this scenario, it is obvious that VAA's administration did not manage its exposure to the risk of over-indebtedness correctly. Avoiding the present capital structure would have been fundamental because the present structure is so serious that it reduces the group's chances of survival and of finding a major investor interested in buying VAA. Although the merger with Cerexport (1998) is accepted as having taken into account the group's capital structure at the time, having a low stable financial leverage from 1991 to 1997 compared to the other years under analysis, the same is not the case with the merger with Atlantis and with later investment plans. In fact, in 2001 (year in which the merger with Atlantis took place) Vista Alegre's leverage was already taking on worrying proportions (especially considering the effect of the low growth in the last few years) and going ahead with an operation and investment plan that would demand major

investment would be careless, to say the least, especially considering that at the time the interest supported by VAA would increase more and more because of the greater risk of non-compliance towards its creditors. The financial restructure of 2006 which made the groups' main creditors its shareholders by converting their credits into shares, did not solve the group's exposure to risk, showing that this had become a permanent problem for VAA.

The Solvency Ratio indicates the capacity a company has of complying with its future obligations. This ratio will depend on the institution's capacity to create wealth and the group's level of indebtedness. This is how it is normally calculated:

$$\text{Solvency Ratio} = \frac{\text{Net Income} + \text{Depreciation}}{\text{Long Term Liabilities} + \text{Short Term Liabilities}}$$

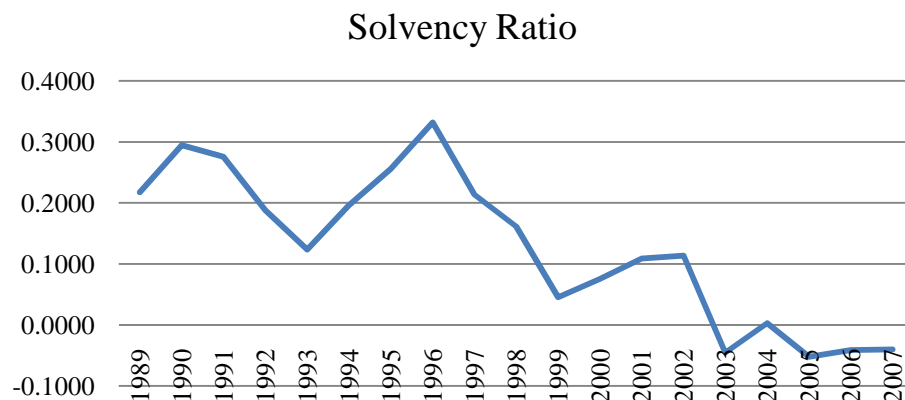


Chart 4

Stressing what I stated before, Vista Alegre suffered a continuous downfall in the last 10 years. This increasing difficulty in being able to comply with its obligations does not have a single origin. As the previous analysis showed, both the group's operational performance and its increased indebtedness made very complicated

advances for VAA’s solvability. It becomes clear that the company was in an imminent and inevitable state of rupture when after 2004 it could no longer create value from its activity (depreciations + net income < 0).

Although it is clear that the company’s problem is a structural and permanent one, and not a liquidity problem, it is interesting to see how the company performed in this field.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

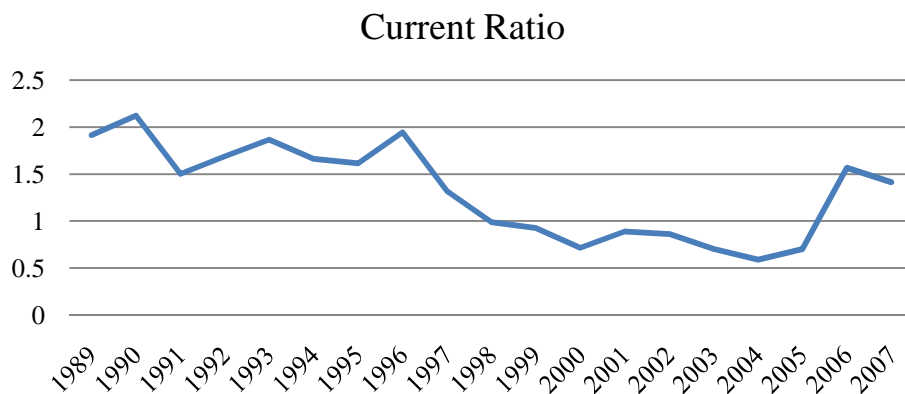


Chart 5

The company also faced various problems from a liquidity point of view, including the merger with Cerexport which made the working capital negative, and all the difficulties associated with non-compliance with its creditors. In this case, the financial restructuring was decisive in inverting the setting, providing VAA with the liquidity needed to comply with its short-term obligations. This restructuring had immediate effects on VAA’s liquidity, producing positive results in 2006 with its Current Ratio once more above 1. This meant that short-term liabilities were once more lower than the short-term assets. Although this did not solve all of the group's problems,

the company was given the chance to survive until an alternative solution was found. Considering the current scenario, such a solution would only be possible with a takeover bid on VAA.

To conclude, Vista Alegre Atlantis's current downfall is structural and impossible to reverse considering the company's current conditions. At the moment, the group is not capable of granting any kind of return to its shareholders for the capital invested in the group, and is not even capable of producing positive operational results, with the added fact that its current capacity of indebtedness is null. The investment in the group's growth was a failure, the company lost its capacity to produce high added-value items, and it was not capable of positioning itself on the market as a major international producer so as to create value from the volume of sales. From a financial point of view, the group levered itself too much, becoming too exposed to the risk of falling into non-compliance. Despite having solved a serious liquidity problem through the financial restructuring in 2006, the group's structural problems remained unaltered following this financial engineering. Following the merger with Cerexport (the first step in the growth strategy) which immediately gave negative signs via the general decrease in the group's ratios, Vista Alegre's administration should have reconsidered whether the operation with Atlantis was in fact a good move, especially considering that due to its dimension, such operation would demand an important financial effort in integrating both groups at a time when Vista Alegre was already showing signs of excessive leverage.

In 2001, at the time of the merger with Atlantis, was the group’s speculation to expand its manufacturing capacity the best option? Was this strategy in line with the group’s European peers?

Evidence shows that it was unlikely that this was a good strategy. The aim of the defined plan had been to increase the group’s growth and productive capacity so as to reduce the production costs per item and have a better chance of entering international markets. These ambitions faced two important obstacles: the fall in the demand for ‘table art’ products (which was becoming steeper as of the end of the 80s), and especially with China becoming a member of the World Trade Organization, which made it impossible for the competition strategy based on price to be successful, because it was difficult to compete with the Chinese. With a technologically advanced productive structure with which the company could produce more items at a lower price per unit, VAA had never been able to make any profit from its investment because sales did not follow a line parallel to the increase in its productive capacity. Thus, the new equipment brought no benefits.

VAA’s strategy was very similar to the strategy followed by Waterford Wedgwood. This Irish group had also put their hope on a growth strategy in order to face the new Millennium by carrying out several mergers and making purchases, and also made a stated investment in new production equipment and technology. However, this strategy was based on a presupposition that contradicted the trend of the last few years – there was no decrease in the familial consumption of high quality tableware. These investments did not produce the desired outcome and led to the group’s progressive downfall.

BHS Tabletop and Churchill China’s strategies contradicted those taken by VAA and WW. When faced by families’ increasingly evident diminishing consumption of these products, these companies decided to reduce their productive structure and focused on the production of greater added-value products aimed at consumers whose demand remained stable (Horeca channel), as opposed to families. This strategy kept BHS Tabletop and Churchill China far too dependent on the evolution of the Horeca channel in terms of consumption. However, it did originate immediate positive results at the same time that their smaller size meant that they were much more flexible to deal with market changes.

VAA’s hopes of becoming larger and increasing its productive capacity at a time when China positioned itself as a new player on the market, which at the same time was giving signs of contraction, does not seem to be a strategy that would bring any value to the company. Faced with these new challenges, VAA should have clearly bet on its advantages (the excellence of its products and the prestige of its brand name), and should have thus worked on the high margins obtained and not on the amounts sold, and maybe reduce its productive capacity considering the market contraction. By taking into account the bets made by its European peers and their results, this strategy would have ensured better results.

As well as the growth strategy, another objective of the mergers with Cerexport and Atlantis was a greater diversification in terms of business areas so as to reduce the company’s exposure to risk. Do you agree that this strategy benefits VAA shareholders?

This justification for the mergers is hardly convincing. The first point we should take into account is that diversification in itself does not produce value; the advantage of diversification results from reducing the variation in the group’s returns, thus reducing the risk the group faces because of such variation. However, not every company’s return variation may be diversified, only non-systemic variation (which results from the specific nature of each business) can be reduced through diversification; this is not the case with systemic risk (which is common to all businesses). Despite realizing that diversifications may be somewhat limited in terms of use, it is undoubtedly useful in reducing the risks faced by shareholders regarding their return variation.

However, it is unlikely that diversification by the company cannot be made by shareholders with the same results and fewer expenses, considering that shareholders can more easily be diversified than companies by purchasing shares from various companies. In the specific case of VAA, Cerexport and Atlantis were privately held companies and so Vista Alegre shareholders could not diversify by purchasing their own shares. Regardless of this, once more it would be unlikely that they could not diversify, reducing their exposure to Vista Alegre’s non-systemic risk by purchasing shares from other companies, obtaining the same (or better) results than the mergers obtained by diversifying their shareholders.

To conclude, Vista Alegre’s diversification would only be beneficial for its shareholders if it meant fewer expenses than diversification carried out by the

shareholders themselves. This is unlikely though because shareholders can obtain the same diversification in a cheaper and more flexible manner by simply buying shares from other companies.

Was Mário Pais de Sousa a good option? What is your opinion based on?

At a critical time for the group, which was facing several risk situations all at the same time (a merger which would have a major impact on the dimension of the group, China becoming a member of WTO, and the major changes in the consumption of ‘table art’ products), meant that the manager chosen had to be capable of dealing quickly and efficiently with this transition.

The person chosen (Mário Pais de Sousa) had built a good reputation for his positive performance in a capital intensive company (as reported). Once chosen to manage the company, Mário Pais de Sousa tried to replicate and use the same formula as that used at Vulcano and which had been a success. He assiduously restructured the group aiming at reducing the number of staff and focusing production in the units with the most advanced technology in the sector. The plan foresaw a reduction in costs mainly associated with the number of employees, but at the same time increasing the group’s productivity.

This strategy proved to be disastrous at a time when the productive capacity of the market was diminishing and China entered the world market with prices which could not be competed against, and resulted in VAA losing its competitive advantage (the excellence of its products).

The fact that Mário Pais de Sousa was an inexperienced manager in the field, turned out to be a severe handicap to his leadership of the group. In 2001, had the choice of leader of the new group fallen on someone with more experience in the sector, s/he could have better interpreted the signs of the market and would have been much more opposed to the investments made to provide the group with a greater productive capacity, and would have anticipated that even with these investments the company would have been unable to compete with the prices of its peers, especially those of the Chinese producers. He would also have understood the negative impact that previous investments had had on the main characteristics/advantages of the Vista Alegre products (excellence and exclusivity), as the growth in production would mean a loss in the superb quality of its products, but above all an accentuated decrease in each item's exclusivity. With a career in companies with strong capital (which was not a characteristic of VAA) and regardless of his qualities, Mário Pais de Sousa proved to have little know-how regarding this field, being incapable of exploiting the competitive advantages of the group.

Did the financial restructuring in 2006 generate the desired results? How did VAA's financial health change following this operation?

The aim of the financial restructuring in 2006 was to solve the group's immediate liquidity problems and also to balance the institution financially by providing it with the capital needed to make it operational again.

With this financial restructuring, VAA's shareholding structure changed substantially (as shown on page 7). Faced with this serious structural imbalance, the group's management reached an agreement with its main creditors – banks BPI, CGD

and BCP to convert their credits into group stakes. Through this operation, these institutions would now have a dominant position, holding 60% of the group (20% respectively for each bank).

This agreement only met half of its objectives solving the group's immediate problems of liquidity by changing its Current Ratio from 0.7 in 2005 to 1.5 in 2006; that is, its short-term assets became higher than its short-term liabilities, which made it possible to pay their more immediate obligations. With regard to the institution's excessive financial leverage, this restructuring was inefficient in altering the company's negative scenario. In fact, by analysing the *Debt to Equity Ratio*, we can see that the values remained rather worrying after 2006, making it practically impossible to get funds from banks which would be essential to economically restructure VAA.

So, this agreement was no more than a financial analgesic which made it possible to solve the group's serious immediate liquidity problem, not providing it with the necessary capital to reconvert its business. In other words, this agreement allowed the company to gain some time in the search for an alternative financing means, not being a source of funds in itself.

Following the financial restructuring of the group, are the new influential shareholders ideal to operate the necessary economic restructure?

This matter is of great significance once we understand that the restructuring which took place in 2006 did not provide VAA with the capital needed for the economic restructuring of the group and, therefore, it was crucial to find an alternative method of financing given that, at this point, the restructuring that had been put into practice was ineffectual.

The 2006 restructuring significantly altered VAA's shareholding structure, and it was now clearly dominated by the creditor banks (BPI, CGD and BCP) which now held 60% of the group via the reconversion of their credits in Equity. These new influential shareholders did not invest in VAA's capital because they believed in the company's future, but rather because they believed that this would be the best option to safeguard their interests as debtholders (since that before the said restructuring, the group was close to being unable to honour its commitments with the aforementioned banking institutions). Despite being the new dominant bloc of shareholders, BPI, CGD and BCP were not willing to increase their financing of VAA, remaining as the company's debtholders, even though now belonging to the shareholder structure of the group.

Thus, this operation had contradictory effects. On the one hand, it was responsible for solving immediate problems regarding the group's liquidity, allowing VAA to gain time in the search for a solution for the group. On the other hand, the fact that the new shareholders were not willing to finance the company once more was a negative aspect of the operation at a time when it was imperative for VAA shareholders to believe in the project and be ready to inject funds into the group.

In your opinion, what was the key point that led to VAA's present situation? What should have been done?

The key event to VAA's present situation took place in 2001 when the group merged with Atlantis, significantly increasing the size of the group at a time when the market was drastically changing.

This growth at a time when the market was contracting would prove to be a blow to the strategy defined by VAA's administration. Obviously, it is only possible to

calculate the evolution of real consumption for any product by analysing past phases. Therefore, VAA would not be able to estimate exactly what would happen to the consumption of its products whilst programming the operation with VAA. However, the market was already showing signs of shrinkage as from the end of the 80s and there were indications that China would soon adhere to WTO - these were critical points to the aforementioned merger. At the same time, in general, its European peers were taking a chance by reducing their size, focusing on market niches. The exception was Waterford Wedgwood which was in fact confronting serious financial problems. Thus, as already mentioned above, although it was impossible to foresee the real consumer evolution (especially if we take into account that consumer choices changed greatly following the events on 11th September, 2001), there were clear signs that a growth strategy was inadvisable (especially with China becoming a member of WTO).

Taking into consideration the conjuncture at the time, a strategy was needed that was in line with that taken by the majority of European peers in the field, reduction of size, and focusing on market niches that continued to favour exclusivity and high quality in tableware products. These were markets where standard inferior quality products from China would not be able to penetrate.

What was the government’s role in the takeover bid launched by Visabeira?
Would it be plausible to believe that this proposal would be put forward without government support?

The Portuguese government was not pleased with the disappearance of this centuries’ old Portuguese porcelain brand, especially considering that this brand enjoys extraordinary internal prestige, as well as being one of the few national brands with

some external recognition regarding high quality products. Furthermore, Vista Alegre Atlantis's fall would directly result in thousands of unemployed which, considering the pessimistic climate in Portuguese society at the end of 2008, and being one of the few noteworthy national brands, would aggravate more so this lack of confidence in the future of the national economy. Nevertheless, the government's direct intervention in VAA would cause various problems. I would like to highlight two of these. The first is that, should such intervention take place, it would save at least some of VAA's work posts and the government would be subject to great pressure from other workers in a similar situation so that the government would also 'save' their companies. Obviously it would be unthinkable for the government to give such aid, but it would also be very complicated to justify the criterion to save or not to save each company. The second point justifying the direct non-intervention of the government is (as we have seen) the need for a profound restructuring of the group, which would necessarily mean that a large number of workers would be dismissed. Should this restructuring be carried out by the government, it would cause great unpopularity, which no government would be willing to face.

And so, following the same logic as the operation carried out by Fábrica Bordalo Pinheiro, the government intervened indirectly in the purchase of VAA by Visabeira, ensuring that financing was possible via government controlled institutions (CGD and Aicep).

It is not plausible that this operation could have been carried out without government aid to Visabeira as VAA is a cash-flow consumer group, due mainly to its thousand-odd employees, and its viability will only be possible with a profound and expensive restructuring given VAA's present state. So, without government financial

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support, Visabeira would not be able to go ahead with this operation without seriously compromising its financial solvency.

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